

The American Observer

A free, virtuous, and enlightened people must know well the great principles and causes on which their happiness depends. -- James Monroe

VOLUME IX, NUMBER 32

WASHINGTON, D. C.

APRIL 29, 1940

Banks Are Vital to American Industries

Federal Reserve System Plays Important Role in Meeting Needs of Business

ANALYSIS OF SYSTEM MADE

Machinery Created to Expand or Contract Volume of Currency as Needs of Nation Change

This is the second of two articles on problems relating to money. The first appeared last week.

Last week we answered a number of questions about money; how much there is in circulation; its relation to gold; effects of going off the gold standard; the possible effects of increasing or decreasing the amount of money in circulation. We said that about \$7,000,000,000 in money circulates in the United States. But we did not tell why. Who decides how much money there shall be at any given time? We shall now take up that important question.

We have seen that the gold supply has something to do with it. The law requires a 40 per cent gold reserve. At least \$40 in gold must be held in reserve for every \$100 of paper money in circulation (except for a relatively small amount of paper money known as silver certificates, backed by silver). Stated the other way around, the amount of paper money in circulation cannot exceed two and a half times the value of the gold in reserve. The Treasury may, under certain conditions which we shall describe later, print money up to the point where the total in circulation is worth two and a half times the amount of gold in reserve. Then it must stop, according to the present law.

The Gold Reserve

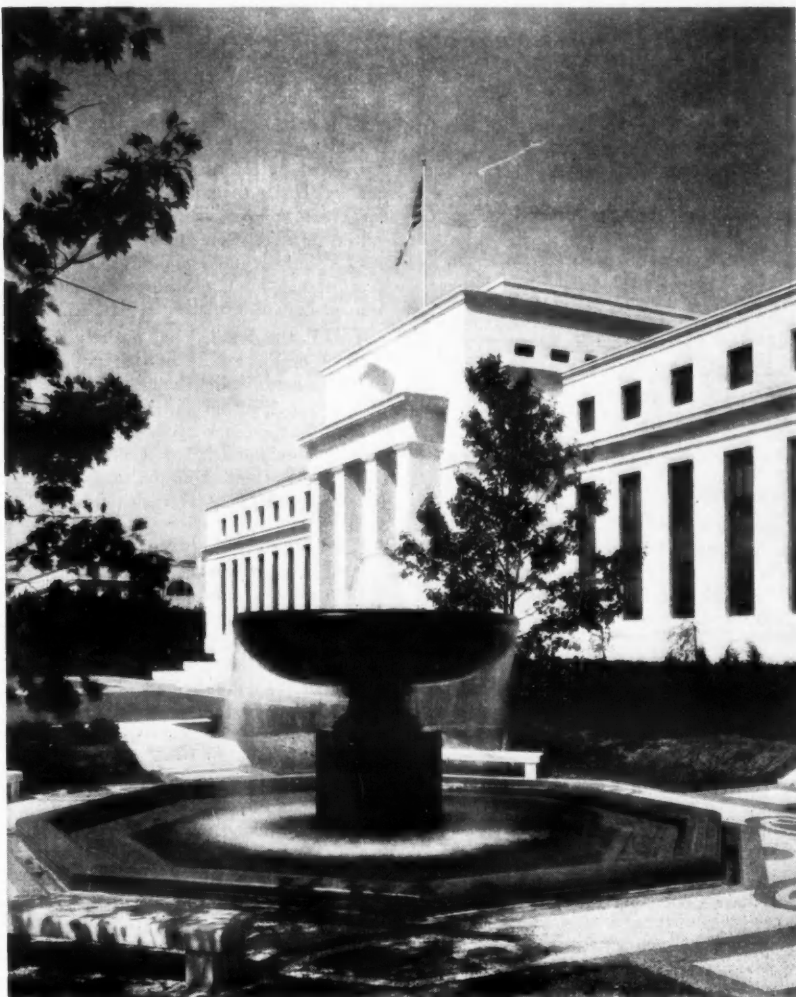
As a matter of fact, however, it has stopped far short of that point. Instead of being worth *two and a half* times as much as all the reserve gold, the money now in circulation amounts to only *one half* the value of the gold. The Treasury could print paper bills until it piled up five times the present money supply without violating the gold reserve law.

But it is not doing that. The gold in the country which is used as the gold reserve amounts to about \$16,000,000,000, and the total supply of money in the country is only about \$7,000,000,000. Gold is pouring into the country in a steady, yellow stream, but the quantity of money remains unchanged. So we ask again, why is this? Who decides that there shall be around \$7,000,000,000 in circulation; no more, no less? By what process is the decision made? The banks play such a big part in the process that we must seek our answer in a study of the way the banking system works.

For banking purposes the United States is divided into 12 regions. In each region there is a big bank, known as a Federal Reserve Bank. It is owned by the local banks of the various cities and towns of the region. This setup is known as the Federal Reserve System. All national banks must be members of the System and state banks may be. Most of the large state banks belong. Each of these banks has a share in the ownership of the Federal Reserve Bank. Each one of them has an account in it, keeps money deposited in it, and borrows money from it.

These 12 big banks are controlled by a

(Continued on page 6)



HARRIS AND EWING

THE FEDERAL RESERVE BOARD BUILDING IN WASHINGTON

You and Your Conscience

By WALTER E. MYER

If you should come to me and ask me for a number of rules which one should follow in order to live happily, I would not hesitate concerning the first rule. At the top of the list I would write: "Keep your conduct in harmony with your conscience." I think all of us would be surprised to see how many of our troubles would fade away if we always did what we really believed to be right—if we did unflinchingly what our best judgment told us we should do. I don't mean to say that you will always do the right thing merely because you intend to do so. You can have a clear conscience and yet do very harmful things. Your conscience is a safe guide only when it is an informed conscience. Your decision as to what you should do will be a good decision only if your judgment is sound. How safe your conscience is as a guide depends upon how wise you are.

We must not lean upon conscience as an easy guide to truth and right conduct. We must study the consequence of all our acts and must use informed judgment to determine which acts are productive of best results. Conscience, divorced from intelligence, reason, and enlightenment, may be used as an excuse for conduct which is dangerous and destructive. One who wishes to live harmoniously and happily with others must be on the job every hour of the day. He must weigh the consequences of his acts, must listen to the opinions of others, and must frequently revise his convictions in the light of evidence. After saying all this, however, I come back to the opinion I voiced in the above paragraph. The line between right and wrong is clear enough in the case of most of our everyday activities. If you are inclined to be inconsiderate or selfish or unfair or disagreeable, you know it; and if you listen to your better judgment, you will avoid such conduct.

By acting in obedience to your conscience you achieve peace of mind. Whatever misfortunes may come, you will find relief in the thought that at least you did your best. Failure to obey conscience, on the other hand, seldom goes unpunished. No one else may know of it, but you are conscious of it, and if the matter is an important one, your moments of remorse will be bitter indeed. One will meet plenty of trouble in this life and many of these troubles cannot be avoided. But one whose conduct is in harmony with his conscience avoids a large share of them. He gains mental repose which is so essential to effective work and achievement and without which lasting happiness cannot be.

Fighting In Norway Grows More Intense

Allies Strive to Dislodge Reich From Foothold; Sweden Calls Reserves to the Colors

ACTION BY ITALY POSSIBLE

Allies Will Face Mediterranean Conflict if Italy Enters War on Side of Germany

While there seems to have been no decisive change in the tide of the European conflict during the past week, it is now generally agreed that Britain and France are confronted with a serious situation. In the north of Europe they face the necessity of dislodging the German army from the foothold it has gained in Norway—a difficult task which must be undertaken with all possible speed. While they have been mustering forces to meet this situation, they have also had to face a renewed threat of Italian intervention on the side of Germany, and, in consequence, the possibility that the war front might be extended to the Mediterranean.

Theater of War

First, let us look at the northern theater of warfare (see map on page 3). Norway, it will be seen, is shaped somewhat like a huge comet. Its large head, jutting into the North Sea toward the southwest, is followed by a long, mountainous tail, cut through with glaciers, fjords, and deep valleys, which stretches all the way up the western coast of the Scandinavian peninsula and reaches around through the Arctic, eastward toward Russia. Communication between the head and tail of the Norwegian comet is very difficult, and is usually carried on by sea. Railroads and highways tend to start at the coast, and travel straight inland, instead of paralleling the coast. But even in the populous southern part of Norway, railway lines and good highways are few. Therefore, it is not surprising that the object of both sides in the struggle now in progress is to gain control of what few railroads and highways there are, and of as many ports as possible.

Generally speaking, German forces dominate the head, and the population centers of the comet. The main body of the army is concentrated in and around Oslo, the capital and largest city of Norway. Other forces, at the time of writing, hold the ports of Stavanger, Bergen, and Trondheim, on the Norwegian west coast. A glance at the map will reveal what this means. German forces control both ends of the Oslo-Bergen railway, and the Oslo-Trondheim railway. In addition, they control the Norwegian terminals of the two railroads leading from Oslo into Sweden, and the railroad from Trondheim into Sweden. German strategy at present seems to be to send a large force northwest along the Oslo-Trondheim railway to join hands with German units now at Trondheim. If the Germans can do this, they will have succeeded in severing the important head of the comet from the relatively unimportant tail. They will have established themselves as masters of the most important communication lines, and will be able to shuttle their forces rapidly back and forth in all directions. In addition, they will have succeeded in confining the Norwegian and Allied troops to those sections of central and northern Norway which matter very little.

(Concluded on page 3)



Two Kinds of Propaganda

If we are to be straight in our thinking we must recognize the right of people to argue for any measures in which they believe and we must not be so ready to question motives. We should distinguish between those who try to convince us by open argument and those who deceive us by falsehood or trickery.

PAUL D. MILLER, ANDRE DE PORRY
CLAY COSS, Associate Editors

As a matter of fact, it seldom pays to spend too much time inquiring what a man's motive is when he advances an argument. Sometimes it pays. If it can be proved that someone has motives which are not revealed to the public, one may rightly be suspicious of the sincerity of his arguments. But if, in the absence of proof, you suspect everyone's motives, especially the motives of those with whom you do not agree, you will be a victim of your prejudices and cannot find the truth. So when someone presents an argument, you are ordinarily safe in forgetting his motives and in studying carefully what he has to say. Then you can make up your own mind.

In the April issue of *Asia*, Dorothy Johnson Orchard tells of the industrialization of India. India is beginning to come of age not only politically but industrially. "The ancient bullock mill is passing, the handloom is disappearing, the carpenter's bow and the cooper-smith's handtools are falling into disuse." There was a time when textiles from Britain and Japan dominated the Indian market. That is no longer so. On the contrary, only a small fraction of the cotton goods on sale comes from abroad. The far greater part is now manufactured at home, in the mills of Bombay and Calcutta. Notable progress has been made even in the exploitation of India's iron resources. One steel company, begun by native capital, has pushed ahead by leaps and bounds and now has the largest single steel plant in the British Empire, with an output of 60,000 tons a month. The expansion of this plant has led to the opening up of hundreds of small machine and repair shops to supply a market that was formerly dependent upon imports.



In his personal contacts, Henderson says, Hitler was invariably courteous and he had considerable charm which he could turn on and off at will to suit his purpose. The spells of rage, about which so much has been written, were not spontaneous. Hitler worked himself up to a fury deliberately with the purpose of intimidating his immediate audience.

Large Stakes Are Involved In Norway

(Concluded from page 1)

Allied strategy at present is to block this move before it can be completed. The task of the Allies has been rendered difficult by the fact that German forces were already in control of Norway's most important railway terminals and ports before the British fleet could swing into action. In order to drive down the Oslo-Trondheim railway and stop the German advance, for example, the Allies would like to land at Trondheim. But this the Germans have prevented them from doing by getting there first. However, British, Canadian, and French divisions have been landed at Namsos, north of Trondheim, and at Andalsnes, to the south of Trondheim. Part of this force is now proceeding toward Trondheim from two directions, with the objective of destroying the German garrison. Another division is moving down the Oslo-Trondheim railway, having skirted Trondheim itself. Somewhere along this important railway line it is expected that Allied and German forces will meet, and that the first really large-scale land battle in Norway will develop. If the Allies succeed in reducing Trondheim and in stopping the German advance, they may be able to turn the tables completely.

Air Base

Other actions have been in progress, of course. At Stavanger, the Germans have been developing a huge air base, just a little more than 300 miles from Britain's naval base at Scapa Flow. The port of Bergen, a little farther up the coast, is being turned into a German submarine base. In the far north, Allied and Norwegian troops have surrounded the German garrison at Narvik, and may have succeeded in taking the Arctic port before this paper reaches our readers. The fate of Narvik is of some importance, because it commands the terminus of the one remaining railroad into Sweden. This railway has been badly damaged, however, and if the Allies do take Narvik, it will be several months before the line can be put into operation. If the Germans succeed in holding Narvik, on the other hand, it will be of little use to them, since Allied fleets are blockading it from the sea. The chief advantage to Germany will lie in blocking an Allied approach to Sweden.

This summarizes briefly the nature of land operations now in progress in Norway. So far, both sides seem to have been engaged in getting as many troops landed as possible without coming to grips with the enemy forces. What will happen in the near future depends in part, of course, upon the alacrity of the men on the spot. It depends more upon how many troops each side will be able to land in Norway. Britain, with all her naval power, has so far failed to prevent German troops and supplies from flowing from Denmark and Germany into Norway. The great German air force, on the other hand, has failed just as singularly to prevent Allied troops from landing at points along the west coast. Germany is estimated to have about 85,000 troops in Norway, and the Allies about 50,000. Combined with the Norwegian army, the Allied forces approximately equal those of Germany. The general situation, therefore, remains virtually unchanged.

The British and French base a good deal of their hopes of success on the fact that Germany's hold is precarious, particularly in the northern ports, such as Trondheim, where the Nazi garrisons are small. But the Allied grip is also precarious, and might be disturbed as easily as Germany's. What the Allies would like to see is Sweden's entry into the war on the side of Norway. This would do two things at once. On one hand, it would put an im-

mediate stop to all shipments of iron and copper ore from Sweden to Germany. On the other hand, it would bring Sweden's 600,000 troops into the fray, and by widening the front against Germany, force the Germans to divert more and more of their troops and supplies into Scandinavia.

So far the Swedes have been very reluctant to abandon their neutrality. Although Sweden contributed approximately \$100,000,000 in cash and in arms to Finland, some months ago, her armed forces and military supplies are still considerable, and the Swedes do not believe they can be caught unprepared, as were Denmark and Norway.

believe that the Swedish army could hold back a German invasion of Swedish soil, but could not fight in Norway without leaving the Swedish mainland exposed, and that it would thus be suicidal for Sweden to split her forces, and lose her only possibility of defense.

Trojan Horse

There is still another development which is causing a great deal of worry in Sweden. It is generally believed in Scandinavia that Germany's lightning success in Norway was achieved by the use of "Trojan horse" tactics. It is believed, that is, that the Germans sent large numbers of troops

has come from Italy which, having remained on the sidelines for more than half a year, is now showing signs of wanting to join her old partner in the war against the Allies.

Italy's position as regards the war has been clouded ever since last fall. Prior to Germany's decision to join hands with Russia, Italy was a staunch member of the Berlin-Rome axis, lending vigorous support to every German act in eastern and western Europe. When Hitler leaned toward Moscow, however, Italy cooled at once. A great many observers acquainted with Italian affairs reported last fall that there was a definite trend away from Germany among the Italian people. It was widely reported also that the Italians were turning to their more conservative leaders, particularly to the royal family, and away from the Fascist radicals. These reports seem to have been well based.

Mussolini, during the early war days, remained strangely silent. It has been suggested that he may have been waiting until Italy was ready for war before laying the groundwork for intervention on the side of Germany, or that Hitler desired that Italy remain aloof for half a year in order that she could exercise her privileges as a neutral to purchase war materials abroad for Germany, thus holding open a wide gap in the Allied economic blockade. It may have been simply that Mussolini has been waiting to see who is going to win the war, and that he has picked Germany as the probable victor. Some believe that his hand may have been forced by an Allied demand that Italy stop her vast shipments of war materials to Germany, or suffer the consequences.

Italian Threats

Whatever may have brought it about, Italy's course has veered sharply in the direction of war with the Allies, during the past few weeks. Italian newspapers have suddenly resumed their vitriolic editorial attacks on Britain and France, and have headlined all stories of German successes, while devoting not a line to stories of Allied successes in Norway or anywhere else. Fascist leaders, including Mussolini himself, have continually warned the Italian people that the moment is close at hand when "the bugles will blow" and Italy will strike. A large squadron of Italian naval craft has been concentrated in the eastern Mediterranean, close to Greece and Turkey, while 20,000 or more Italian troops have been ferried across the

Adriatic to Albania (now an Italian protectorate).

France during recent months has sought to pacify Italy by offering her concessions in the Mediterranean area. Some Allied officials now believe that Mussolini may have already committed himself to support Hitler, however, and that further talk would be futile. Two weeks ago it appeared that Italy might join Germany in a week-end invasion of the Balkans in an attempt to establish a protectorate over the Dalmatian coast of Yugoslavia. But the critical week end of April 20-21 passed without incident, and tension has slackened. The inconclusive nature of the campaign in Norway may have caused *Il Duce* to hesitate.

As Italy seems to have been swinging back toward Germany, relations between the Allies and Russia have taken a curious turn for the better. Britain and Russia have now begun negotiations for a new trade treaty. French newspapers have softened their editorial attacks on the Soviet, and Moscow papers have likewise modified their policy of denouncing Allied aims. Some observers are now wondering whether Britain and France intend to line up Russia once more to offset Italy.



During the past few days, there have been many indications that Hitler may be planning an attack upon Sweden. According to Swedish reports, at least 20 German planes flew over Swedish fortified areas within the space of one day, last week, presumably photographing Swedish defenses, in much the same manner that German planes flew over Norway just previous to the invasion of that nation. Swedish aircraft and anti-aircraft guns brought down three of these planes, the government called up several classes of reserves, and ordered all Sweden blacked-out at night, but withheld an order of general mobilization, clinging precariously to her neutrality pending further developments.

Sweden's Position

Sweden does not wish to join in the fight for several reasons. In the first place the Swedes have little confidence in the ability of the Allies to send sufficient aid to hold back the Germans. Sweden, they say, is much more remote from England and France than is Norway, yet the British were unable to prevent Germany's landing forces in Norway in large numbers. How could they hold in check a German occupation of southern Sweden? Some Swedes

ahead of their regular army, but disguised as salesmen, seamen, and tourists, and that a number of Norwegian officials in key posts accepted bribes from the German government, and gave the orders which caused warships and batteries to remain silent while German ships steamed past. How much of this is truth, and how much is fiction is not clear, but the thought that such tactics might be repeated is having a profound effect in Sweden. Suspicion and distrust are already rising, and one newspaper has gone so far as to charge certain important naval officers of being pro-Nazi. The fear of Germany's "Trojan horse"—the enemy within the gates—has taken hold not only of the Swedes but it has also spread throughout other neutral states, such as Belgium, the Netherlands, and Yugoslavia, all three of which have been taking what steps they can to disarm all who might rise in support of Hitler in the event of a sudden invasion by Germany.

While the Allies have been trying to devise some way of reducing this cold fear of German might and intrigue, now spreading so rapidly among Germany's neighbors, they have been faced with a very serious threat in the Mediterranean. The threat



THE OLD C. & O. CANAL

This picture was taken in the days when the canal, started by George Washington, still linked Washington, D. C., with Cumberland, Maryland. Abandoned some years ago, the canal area is now being turned into a park.

DOMESTIC

Relief Funds

Before he left the capital for a short vacation in Warm Springs, Georgia, President Roosevelt sent Congress a new proposal to deal with relief needs for the coming year. He reminded the legislators that last January in his budget message, he had recommended \$975,000,000 as the sum of money which should be provided for relief purposes during the year beginning July 1, 1940.

Business conditions were promising when he prepared the budget, stated the President, and it appeared that new opportunities in private employment would be open to large numbers of the men and women who were on relief rolls. Now it seems, he said, that \$975,000,000 may not be enough to take care of the relief needs from July 1, 1940, to June 30, 1941. Business has not recovered from the slump in which it has been for some time, and the hoped-for jobs in private industry have not materialized.

Consequently, the President asked for Congress' permission to spend the entire \$975,000,000 in eight months, instead of 12, if it becomes necessary. This would mean that Congress might have to provide more money next year to supplement the funds now being appropriated.

National Defense

At one end of Pennsylvania Avenue in the nation's capital, President Roosevelt and Secretary of State Hull have been handling the day-to-day problems created for the United States by warfare in Europe and Asia. At the avenue's other end, Congress hears the echoes of our position in foreign affairs in the form of arguments for and against heavy military and naval appropriations.

In the midst of this atmosphere, the Senate recently approved an expenditure of \$963,797,000 for the navy during the year which begins July 1. This is approximately the same sum which the House of Representatives had approved some time ago. However, there are a few minor differences between the bills of the two houses which remain to be ironed out. The total sum is \$48,000,000 more than the appropriation for the year which ends July 1.

The Senate also gave its approval to plans for constructing two additional 45,000-ton battleships, which will be about the same size as two battleships already under construction. Since the navy must be able to transfer ships quickly and easily between the Atlantic and the Pacific Oceans, the Senate decided that the vital Panama Canal should be strengthened. To make the waterway more secure, the Senate voted \$15,000,000—plus another \$99,000,000 for later expenses—to be used for building new locks.

Poll Taxes

Southern congressmen are intently watching the progress of the movement to abolish poll taxes. The eight remaining states which have

poll taxes are Alabama, Arkansas, Georgia, Mississippi, South Carolina, Tennessee, Texas, and Virginia. Although the laws requiring citizens to pay a special tax for voting were prevalent some years ago, the statutes have been repealed, one by one, in other states. North Carolina dropped its poll tax in 1920; Pennsylvania, in 1933; Louisiana, in 1934; and Florida, in 1938.

Congress is considering an anti-poll-tax bill now, and the hearings on the measure were held recently. It was pointed out that in the eight states, only 2,679,473 persons out of an adult population numbering 11,606,046 voted in the 1936 presidential election. In South Carolina, only 14 per cent of the adults voted; and in one county, only three per cent.

This poor turnout at the polls, it is charged, is the direct result of the poll tax, which strikes at those who cannot afford to pay. The tax generally runs from \$1 to \$1.50 a year for each adult. In some states, a person cannot vote unless all his back taxes are paid. So if he had not paid for 10 years, his total unpaid tax would be either \$10 or \$15. Corruption often appears, it is said, when a candidate buys votes by paying poll taxes for a number of people. One witness at the hearing told of seeing a candidate distribute 130 poll tax receipts to voters.

C & O Canal

In 1775, George Washington organized a company which planned to dig a canal con-

The Week at Home

What the People of the World

land. For nearly 75 years, the C & O did a good business carrying freight—coal, grain, and factory products. When a flood washed out part of the canal in 1924, the company disbanded.

Last year, the government bought the old C & O canal, and began to turn it into a recreational area. Hikers and bicyclists can travel along the old towpaths, and fishermen, swimmers, and canoeists can use the waterway. At present, only 22 miles of the canal are being restored.

Auto Workers Vote

For over a year, the workers in the plants of the General Motors Corporation have been at the center of a dispute between the American Federation of Labor and the Congress of Industrial Organizations. Nearly all the 137,500 workers wanted a union. But the question was whether more of them wanted a union affiliated with the CIO or one belonging to the AFL. Each of the organizations claimed that it represented a majority of the employees. To stop the endless disputes and rivalry, it was decided that the workers should voice their preference in a special poll conducted by the National Labor Relations Board.

Recently, on the voting day, booths were set up in the plants, where nearly 129,000 workers—about 94 per cent of those eligible—marked ballots. When the votes were counted, the United Automobile Workers, an affiliate of the CIO, had won a three-to-one victory over the United Automobile Workers of the AFL. It had been decided before the election that each General Motors plant would stand as a separate bargaining unit. On this basis, the CIO captured 48 plants; the AFL, five. Among the handful of plants not included in this total, several voted for neither union, and the election results were disputed in a few.

Straws in the Wind

For the past several weeks, the American Institute of Public Opinion has sent its representatives to all the 48 states, asking voters, "Which party would you like to see win the presidential election this year?" On the basis of the replies, Dr. George Gallup reports that a majority of the voters in 31 states are leaning toward the Democratic party, and that in

The question of a third term is still up in the air. The European war and its effects on the United States may play a large part in influencing the outlook of voters.

Logan-Walter Bill

Congress is in the midst of a fight over a measure known as the Logan-Walter bill, which the House of Representatives recently passed by a margin of 279 to 97. The battle is now carried to the Senate. The bill is aimed at about 130 federal bureaus, boards, and agencies, such as the National Labor Re-



SOLIDARITY UNQUESTIONED
KIRBY IN N. Y. POST

lations Board, the Securities and Exchange Commission, the Food and Drug Administration, and others. A few—such as the Interstate Commerce Commission, the Federal Reserve Board—are exempted.

Each of these agencies was set up—some under the New Deal, older ones under Republican administrations—by specific laws. They were given powers to administer certain acts, such as the wage-and-hour act, the food-and-drug laws, and so on.

In the course of administering its set of laws, an agency must get the facts in a specific case, pass a ruling, and enforce the decision. What the Logan-Walter bill seeks to do is to give individuals and companies which come before the boards an opportunity to appeal the various rulings to the courts, in case they disagree with the decisions. The process of appeal, although definite, is, of course, very complex.

However, those who favor the bill say that it would keep the agencies from overstepping their authority, and from passing unconstitutional rulings. At least, it is pointed out, there would be a definite way to test the cases in federal courts. But the opponents, including the President, charge that the process would slow down the work of the agencies, and clog the courts with disputed cases.

Envoy to Iceland

Diplomatic representatives are soon to be exchanged for the first time by the United States and Iceland. Although independent, Iceland has maintained an allegiance to the Danish crown, and left the management of its foreign affairs largely to Denmark. After Germany occupied Denmark, the Icelandic government severed the Danish ties, and assumed complete control over its foreign relations.

Bertel E. Kuniholm, a career diplomat in the Department of State, will be the first American consul to Iceland. Four years after he graduated from West Point in 1924, Kuniholm entered the diplomatic service. At present, he is the American consul in Zurich, Switzerland.

The total value of trade between the United States and Iceland is about \$1,500,000 a year. Although this commerce cannot increase by a great deal, it will probably grow some. Problems involving either questions on trade or on foreign affairs will be handled by Kuniholm.



THE SUPREME COURT

This is the first picture to have been made of the court since Frank Murphy became associate justice. Seated, left to right: Associate Justices Owen J. Roberts, James Clark McReynolds, Chief Justice Charles Evans Hughes, Associate Justices Harlan Fiske Stone, and Hugo L. Black. Standing: Associate Justices William O. Douglas, Stanley F. Reed, Felix Frankfurter, and Frank Murphy.

necting the Potomac River with the Ohio. His company hoped to carry freight between Alexandria, Virginia, where ocean-going vessels docked, and the rich Ohio valley, where settlers were beginning to build new homes. Although the company began the construction of the canal, it did not get very far, and the plan fell through.

Years later, the Chesapeake and Ohio Company had a similar plan, and in 1823 work on the canal was started again. By 1850, the company had spent 11 million dollars on a canal which covered the 185 miles between Washington, D. C., and Cumberland, Mary-

17 states a majority of the voters prefer the Republican party.

According to the strength of the states which are in each column, the Democrats would get 317 electoral votes in the presidential election, and the Republicans would receive 214 electoral votes. However, the poll showed that a number of states which lean toward the Republicans or the Democrats now are on the borderline, and that the voters may be swayed one way or the other.

Dr. Gallup warns that the whole picture can change rapidly month by month. The parties have yet to nominate their candidates.

Time and Abroad

Doing, Saying, and Thinking

FOREIGN

Netherlands Indies

A little while ago, at a time when it seemed as though the German army might invade the Netherlands at any moment, the Dutch government was disturbed to note that Japan and the United States were already discussing what would happen to the Dutch colonial em-



WHO RULES THE WAVES?
SEIBEL IN RICHMOND TIMES-DISPATCH

pire if Holland should be overrun. The chief bone of contention was the Netherlands East Indies, that important collection of large and small islands stretching from the Malay peninsula southeast to Australia. Containing some 65,000,000 people, and vast natural wealth in the form of rubber, oil, tin, bauxite, fiber, copra, tobacco, quinine, and sugar, the Netherlands East Indies provide an important market and a vital source of raw materials for a number of large powers, the United States and Japan included, and are generally regarded as a colonial plum.

The dispute began when the Japanese foreign minister, Hachiro Arita, cautiously hinted that the conquest of Holland might force Japan to assume a protective trusteeship over the East Indies for the purpose of maintaining peace and order. In an equally cautious statement, Secretary Hull replied that any disturbance of the status of the Netherlands Indies by forceful measures would be very much the concern of the United States. As the result of these two statements, the press in both countries became excited.

So far there have been few indications that there is anything really alarming about this dispute. In the first place, Holland has not (at the time of writing) been invaded, and the situation has not come up. In the second, observers are inclined to believe that Arita's cautious statement was put forth simply as a feeler to test American reaction. There is

little doubt that Japan would like to control the wealth of the East Indies, but there is considerable doubt that she would risk war with Great Britain and the United States (in addition to her involvement in China) to achieve it.

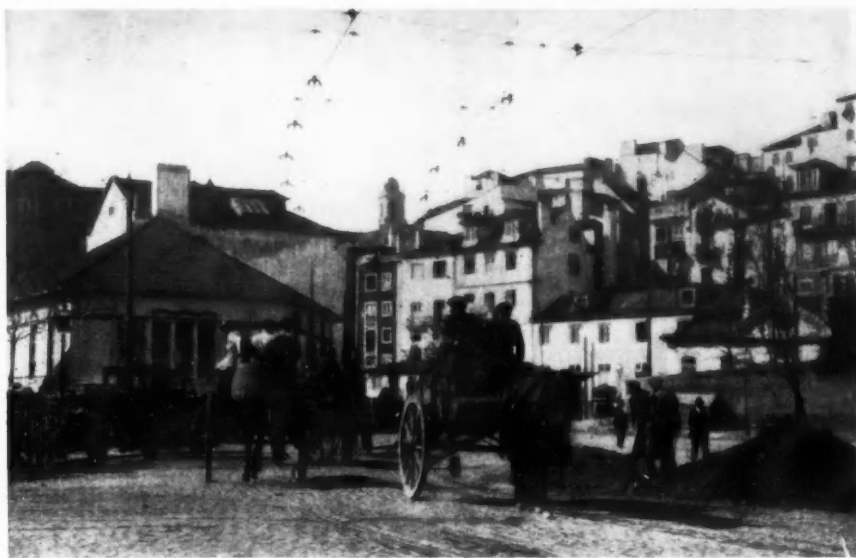
Portugal Looks Back

While the larger powers of Europe are engaged in war, or in war preparations, Portugal is quietly preparing to celebrate its 800th anniversary as an independent state. Founded in the year 1140, Portugal was once one of the greatest powers in Europe. With the aid of such adventurous men as Prince Henry the Navigator, Vasco da Gama, and Magellan, its dominion was extended over eastern South America, over large parts of the African coast, India, sections of China, and the East Indies.

Today Portugal is a mere shell of its former self. A mountainous, semi-arid land of vineyards and terraced farms lying between the mountains of western Spain and the Atlantic, it occupies an area no larger than Indiana, and plays a small part in world affairs. Some remnants of Portugal's once great empire do remain intact, it is true. The Portuguese still hold the Azores and Cape Verde Islands; Guinea, Angola, and Mozambique, in Africa; and small holdings in China, India, and the East Indies, but for want of funds, these possessions have gone largely undeveloped. This is even true of Portugal itself. In the Portuguese mountains there are a number of minerals which could be developed, but mineral production is small. The 7,000,000 stocky, dark-skinned people of Portugal depend mainly upon their fisheries, canneries, vineyards, and cork exports for a living, and they depend upon Great Britain to defend their sagging empire of 9,000,000 people.

Black Gold

During the fifteenth and early sixteenth centuries, the nations of Europe financed explorations, outfitted armies and navies, and



A STREET IN LISBON, PORTUGAL

The name of Portugal almost never appears in news affecting the European war, but the little nation occupies an important geographical position which may in time influence the course of the war. The Portuguese are celebrating the 800th anniversary of the founding of their nation.

occasionally went to war simply to gain control of the yellow metal we know as gold. In the modern era the struggle for gold seems to have been replaced by a struggle for oil. Every industrial nation needs oil in large quantities, whether as cheap fuel or high-grade aviation gasoline, whether to lubricate bearings or to run Diesel engines. No airplane, ship, submarine, train, gun, motor, or wheel can function for long without the aid of oil in some one of its many forms.

If oil were distributed evenly throughout the world, its role in international affairs would probably be negligible—but it is not. It is found in the most unexpected places—in the deserts of eastern Arabia, on an island in the Persian Gulf, under a lake in Venezuela, in the midst of a South American wilderness known as Gran Chaco, and in the crowded islands of the East Indies, as well as in better-known locales, such as in the United States, Mexico, Rumania, and southern Russia.

Nations have been profoundly affected by possession or lack of this precious fluid. In the years following the World War, the oil interests of the United States and Great Britain fought a silent but intense financial war to establish a world petroleum monopoly. Bolivia and Paraguay fought a long, bloody war over a wilderness, the only value of which lay in its oil deposits. Today, relations between the United States and Mexico are strained as a result of the latter's expropriation of American oil properties; Venezuela and Colombia are enjoying a boom period brought about by the world demand for oil, while Rumania finds her security in growing danger as the result of Germany's increasing demands for the products of her oil fields.

Approximately 1,978,000,000 42-gallon barrels of oil are produced and consumed in the world each year. Of this total, the United States produces more than a billion barrels, followed by the Soviet Union, and then Venezuela, Iran, the East Indies, Rumania, Mexico, and Colombia in diminishing degrees of importance.

Stockholm

Stockholm, the Swedish capital, which is only now beginning to learn about blackouts

and air-raid sirens, has long been one of the most peaceful and attractive capitals in Europe. Because it has been built on a cluster of islands, it has often been called the "Venice of the North," but while the islands of Venice are dead flat, those upon which Stockholm lies are quite hilly. In some places one must take an elevator to get from one street to another. The islands themselves are joined to one another and to the mainland by a series of bridges which lend great charm to the city. Moving to and fro along the docks and quays are hundreds of small craft, ferry boats, motorboats, and barges. The late Karl Capek, a famous Czech writer, once remarked that "the foreigner is never sure whether at the moment he is standing on the mainland, on an island, or on a mere protuberance in the sea, or in the middle of a fresh-water lake."

Apart from being the seat of the Swedish government, and containing the famous Town Hall and Royal Palace, Stockholm is also Sweden's most important commercial and industrial center. It contains important ship-building yards, textile, porcelain, steel, and lumber factories, and iron foundries.

American Indian Congress

On the shores of Lake Patzcuaro, in the Tarascan Indian district of Mexico, an unusual congress was gathered last week. There were government officials from the United States and the republics of Latin America, eminent scholars, linguists, and scientists from North, South, and Central America. But predominant in the congress were the broad, impassive faces of Indians representing a great variety of tribes and languages. Apaches, Navajos, and Pueblos from the United States mingled with the descendants of the Aztecs and Incas of Mexico and Peru, and with Indians from as far south as the Argentina pampas, and from as far east as the Brazilian jungles.

The occasion was the first meeting of the Inter-American Indian Congress, which has been established on the fiftieth anniversary of the Pan American Union to discuss the problems facing Indians in the Americas. Outside the United States, where Indians are legally wards of the government, these problems are almost always the same. For hundreds of years the Indians have been forced out of goods lands and into mountainous or desert or jungle regions where they cannot support themselves. Greed on the part of the whites, combined with pride and a tendency toward isolation on the part of Indians, has widened the social and economic gulf between the two races year by year. The problem is particularly important in those countries where Indians are in a majority, notably in Ecuador, Brazil, Bolivia, Peru, Mexico, and Guatemala. Of these six states, only Mexico has made any real progress toward improving the lot of the Indian during the past decade, one reason perhaps being that Lazaro Cardenas, president of Mexico, is himself part Indian.

Whether the Congress will be able to help matters through discussion and an exchange of information, is a question. If it can, its accomplishments will stand as another argument in support of Pan-American cooperation.



THE DUTCH PREPARE TO DEFEND THEIR COLONIES

The fate of the rich Dutch East Indies, in the event the Netherlands is drawn into war, has become a matter of international concern. The Dutch claim to be able to defend their own possessions from possible Japanese attack, and have built up a small but efficient colonial army to that end.

ELDERMAN IN WASHINGTON POST AND ACME



COUNTING MONEY
Money is printed in the Bureau of Printing and Engraving in Washington.

U. S. Banking System Plays Vital Role in Turning Wheels of Industry

(Continued from page 1)

Federal Reserve Board, the members of which are appointed by the President of the United States. Indirectly, therefore, the United States government has much to say about Federal Reserve Bank policies. This governmental influence is all the greater because the Reserve Banks and the United States Treasury work closely together on many of their activities.

The Banking System

Now let us have a glance at this banking system in operation. We shall go to the imaginary town of Circleville, whose bank is the First National. One of the First National's customers is John Smith, a manufacturer. Smith has just received an order for \$1,000 worth of goods from the Brown Furniture Company. The Brown Company, however, did not pay cash. It gave Smith a note (or promise to pay) due in 60 days. Smith is willing to take the note instead of cash, for he knows Brown will pay when the note is due. If he does not, Smith can sue him and get the money, for the Brown Company has a considerable amount of property.

So Smith takes the note instead of cash. But he needs cash, and cannot wait 60 days. He must pay his workers in a few days, and he must pay them in paper money. So he takes the Brown Company's note to the First National Bank and says in effect: "Here is a note of the Brown Company, due in 60 days. It is good, all right, but I need the money now. Will you, therefore, take the note off my hands, or 'discount' it? Will you pay me the \$1,000, minus interest, for, of course, I shall expect to pay you interest for the 60 days that will elapse before you can get the money? Then at the end of the 60 days you can collect the \$1,000 from the Brown Furniture Company."

The First National Bank will probably accommodate Smith and discount his note. But perhaps a great many merchants are buying goods on time and a number of manufacturers, like Smith, are asking the bank for cash. So are other people. The bank finds that it has not enough money on hand to meet the demands. It has plenty of notes: commonly called "commercial paper" (promises to pay, guaranteed by property), so it is in a safe condition. But it has not on hand enough actual money to meet the needs of the community.

The First National Bank, then, goes to the big bank with which it has an account, the Federal Reserve Bank of that region, and asks to borrow money. It takes the note of the Brown Furniture Company, which it bought from Smith, and other similar notes (commercial paper) and says to the Federal Reserve Bank: "Will you take this commercial paper off our hands, giving us cash for it? You can get your money in 60 days. Meanwhile, we shall pay you interest."

So the First National Bank borrows from the Federal Reserve Bank in order that it

may lend to Smith and other customers. It borrows the money at a certain rate of interest, and lends it to Smith and the others at a higher rate, thus making money on the transaction.

But suppose that the Federal Reserve Bank has not enough money to make the loan to the First National. Perhaps dozens of banks need cash and are trying to get loans from the Federal Reserve. What is the Federal Reserve Bank to do? It goes for help to the Federal Reserve Board and says: "Many of the banks in our region need money. They are in good condition; have sound commercial paper (notes coming due soon), but they need cash. We would gladly lend them the cash, taking their commercial paper as security, but we do not have enough on hand. Our region really needs more money in order to carry on its business. Will you have some paper money printed and delivered to us?"

The Federal Reserve Board considers the matter, and if it thinks there really is need for more money, it asks the United States Treasury to print paper bills and lend them to the Federal Reserve Bank. The Federal Reserve Bank lends some of this cash to the First National Bank and other banks. The First National Bank then lends cash to Mr. Smith; that is, it takes the Brown Company's note (promise to pay in 60 days) off his hands, charging him interest for it. Smith gets money and pays his employees. Many purchases are made and business is stimulated.

But does this new money which has been put in circulation stay in circulation? Does it add permanently to the country's supply of money? Not necessarily. It may soon be taken out again. After 60 days the Brown Furniture Company's note is due. The company pays the money to the First National Bank. The First National then pays its debt to the Federal Reserve Bank. It no longer needs the money and does not want to continue to pay interest on it. Other bankers are doing the same thing. A great deal of cash is turned in to the Federal Reserve Bank. It now has more money on hand than it needs, so it turns back to the Treasury the money which had been printed a few months earlier, and the money is taken out of circulation.

An "Elastic" Currency

We thus have what is called an "elastic" or "flexible" currency. The amount of money increases when business is active and it is needed. It decreases when business is inactive, when few people are borrowing and lending, and when it is not needed.

Of course, the process is not really so simple as our brief description would indicate, and the increase or decrease in the currency is not wholly automatic. The Federal Reserve Board has a great deal to say about it. Let us get back to the case we mentioned. The First National Bank

(Concluded on page 8)

Personalities in the News

IF this were 1944 or 1948, Governor Harold E. Stassen of Minnesota might be a prominent candidate for the Republican presidential nomination. As it is, he is two years younger than the constitutional age minimum of 35 for president. But the Republicans have been impressed by his political leadership at 33, and by the efficient manner in which he has governed an important state. So the party has chosen him to make its keynote speech at the national convention in Philadelphia on June 24.

In this important role, he will be placed in the national spotlight. After the selection was announced, Raymond Clapper wrote in his syndicated newspaper column that Governor Stassen is a "young, vigorous, new figure, with a large frame and a smiling, open face, inclined toward a moderate liberal course, and immensely popular in Minnesota after a year in office."

Stassen was just finishing his second four-year term as county attorney of Dakota County in 1938, when he ran for the governorship. As the state campaign reached its peak, he had to spend a good deal of his time with his county duties, prosecuting a sensational murder case. All over the state, people were watching the trial, and predicting that if he won the case, he would win the election; that if he lost one, he would lose the other. The jury acquitted the defendant, but Stassen went ahead and surprised the political prophets by winning the election in the fall by a good margin.

A new labor law is the most widely discussed accomplishment of his state administration. The act prohibits a strike or lockout until both the workers and their employers have "cooled off" for 10 days—30 additional days if the industry involves an essential public service, such as food distribution. If arbitration and negotiation fail to produce an agreement during the "cooling off" period, the strike can be called. In 1936, 1937, and 1938, Minnesota had an average of 16,000 persons out of work each year because of strikes. The total dropped to 2,100 in 1939. Without reducing relief appropriations, Stassen has cut the state's operating costs by \$5,000,000 a year. These achievements have caused his fame to spread.

Stassen got his first experience in politics during his student days at the University of Minnesota. A champion orator and debater, he won both scholastic honors and campus elections. As a student, he once warned the state legislators not to raise tuition fees at the university, "because we must think of students not on the basis of what they can pay, but on the basis of what they can repay." His energy and ability have carried him a long way in Minnesota, and observers are waiting to see whether he is ready to begin climbing in the national scene this summer at Philadelphia.



GOVERNOR HAROLD STASSEN

NEXT to Hitler, the best-known, most powerful, and probably the best-liked public figure in Germany today is Field Marshal Hermann Goering, the creator and commander of the present German air force, economics minister and director of the Reich Four-Year Plan, chief forester and huntsman, president of the Reichstag, and (since last fall) the official Number 2 Nazi in Germany.

To the world at large Goering is probably best known for his variety of medal-encrusted uniforms, and for his great girth and weight—the object of a great many jokes in and out of Germany. But it would be a mistake to assume that he is no more than a Nazi clotheshorse, or that he is lazy and inactive simply because he is fat. On the contrary, Goering has been one of the most active and energetic leaders in Nazi Germany.

Born in Bavaria, in 1893, Goering was brought up in a home where there was always plenty of food, money, and leisure. His father, the governor-general of German Southwest Africa, was easily able to give him a good education, but Hermann's schooling was cut short when he volunteered for infantry service in the first year of the World War. Subsequently transferred to the air force, he became one of Germany's foremost pilots.

Like Hitler, Goering was profoundly shocked by Germany's defeat. At first he refused to surrender his planes. Beaten by socialists in Berlin, he developed a violent hatred of democrats, socialists, and liberals of all kinds. After he had done some commercial flying in Denmark and Scandinavia, he found an outlet for this hatred in the Nazi movement, which he joined in 1922. During the famous "Beer Hall Putsch" in



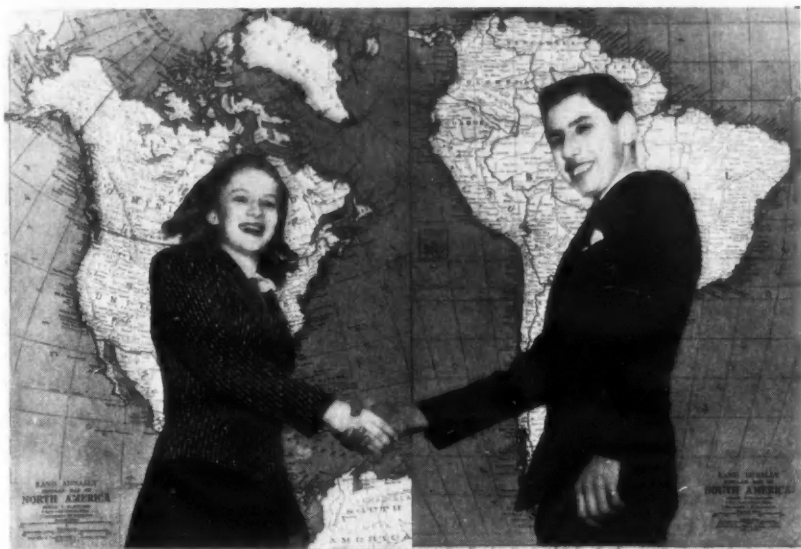
HERMANN GOERING

Munich, the following year, he was severely wounded, and fell into such a mental state that his hospital treatment had to be followed by confinement to an asylum.

After another period of exile and of wandering abroad, Goering returned to Germany and eventually rode to power with Hitler, becoming president of the German Reichstag in 1933.

Goering's present position in the Nazi leadership is primarily that of an administrator. He has a great deal of executive ability, and although his methods are often brutal, his bluff frankness has won him a certain amount of popularity, not only with German associates, but with foreign diplomats as well. He is known to be more level-headed and moderate than such other Nazi leaders as Hess, Ribbentrop, Goebbels, Himmler, and even Hitler, and for that reason he has been looked upon with some favor by the British and French.

Goering's personal life is one of great extravagance. With his second wife (a former Berlin actress) he maintains a great town house in the German capital, and a 5,000-acre hunting preserve near Berchtesgaden, in Bavaria.



HANDS ACROSS THE CONTINENTS
(Courtesy Murphy High School, Mobile, Alabama.)

Excellent Student Journalism Is Seen in Mobile High School Paper

SINCE 1930, the *Murphy Hi Times*, published by the Murphy High School in Mobile, Alabama, has devoted one issue each year entirely to a special national or international problem. This year's special edition, a 16-page issue, was filled with news and articles on Latin America and the international relations of the Western Hemisphere. For over a month, the editors and reporters made a diligent study of Latin American agriculture, natural resources, transportation, politics, history, geography, commerce, health problems, music, recreation, architecture, culture, and industrial products.

The assignments for stories on these fields were distributed to the staff writers far in advance of the copy deadline. And there is ample evidence throughout the pages of the *Times* that the writers did a thorough job in their research. Some of the stories give recent news of political and industrial developments in the various Latin American countries. A number of articles are devoted to essential background information about the people—their culture and their ways of living.

The business staff, of course, had its share of work, because the expenses of publishing a 16-page paper were heavy. They were able to finance the venture successfully, however, by selling a large amount of advertising space to the stores, banks, and other business establishments of Mobile. In assembling the paper, the art staff, the business manager, and the makeup editor cooperated to arrange the

stories, the advertisements, and the illustrations in an attractive manner.

The editorials offer viewpoints on the importance of having friendly relations between the United States and the Latin American nations, and on the ways to promote a better understanding between the peoples of the two continents. One editorial writer pointed out that the study which was required for publishing the special edition had given the staff a friendlier, more intelligent attitude toward the nations of the south.

Although this issue is the highlight of each year, the *Murphy Hi Times* rates among the outstanding high school newspapers in the United States on the basis of its other issues, too. Like leading student newspapers in other towns and cities, it has an energetic staff which gathers, writes, and publishes timely and interesting news about the students, the faculty, and the school activities.

By publishing a special edition outside the realm of school news, however, the student journalists have had a more extensive field in which to test their talents for writing and editing. In the larger laboratory of national and international news, there are different types of research and writing problems for the staff members, some of whom plan to make a career of journalism. Both the staff and the newspaper's readers agree that the annual edition has done a great deal to broaden the horizons of the Murphy High School students.

• Vocational Outlook •

Commercial and Fine Art

THE would-be artist has a choice of two fields in which to work—fine art and commercial art. Unfortunately, the painter or sculptor pursuing the profession of fine arts generally makes an insecure living. For opportunities in this field are few, and often, he has a desperate time finding any work at all. In 1930, over 18,000 people throughout the United States were studying fine arts, yet only 2,000 of this number were earning a living. In order to achieve success in fine arts, extraordinary talent is necessary. Painting water colors may be a delightful hobby, but it is not much fun to depend upon such a career as a means of earning a livelihood unless one is unusually gifted.

A great deal more encouragement may be given to those who plan to enter the field of commercial art. Here, opportunities are rapidly expanding. Department stores need artists to make attractive advertising displays of their goods. Newspapers want artists to do work for their advertising and for their editorial departments. Magazines and book publishers seek talented individuals to draw illustrations for articles, novels, and stories.

The commercial artist must naturally possess some innate drawing ability. But he does not need as much originality and talent as he would need to succeed in fine arts. With proper training and application, a person with a knack for drawing may develop the technical skill required of the commercial artist.

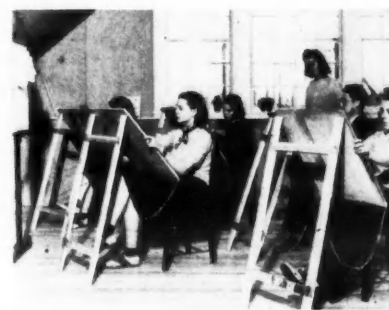
The successful artist always keeps abreast of the latest developments in his field. Familiarity with the best work of other commercial artists helps him with his own artistic endeavors. Generally, he makes a thorough study of the subject which he is to illustrate before he commences work on his project. Extensive research and alertness to new ideas help him considerably.

Commercial artists work either as regularly salaried employees or as free-lancers. In well-established firms, artists begin with a wage ranging from \$18 to \$25 a week. Those with merit may expect to receive from \$35 to \$40 a week after a few years. After considerable experience, the better artists will earn from \$50 to \$100 a week. A few top-notch artists make between \$25,000 and \$75,000 a year, but they are the exceptions. The earnings of the free-lance artists, on the other hand, depend upon their ability and upon their connections with various magazines, advertising agencies, and book companies. Many of them receive good incomes.

What are the opportunities for young people in this field? Today, throughout

the United States, there are around 75,000 persons engaged in commercial art. Although exact unemployment figures in this profession are not available, there are good reasons for believing that it is less overcrowded than many other professions. According to the 1930 census, the number of commercial artists out of work was small in comparison to other professional people. In 1935, employment conditions among artists was still comparatively favorable. Only nine per cent of the artists in this field sought jobs through the United States Employment Service. And in 1937, only three per cent of all commercial artists were registered with the Employment Service.

There are art schools in almost every large city throughout the United States where one may study. The technical training varies from an eight-month course to one of three years. However, it is best to take a longer course in order to acquire a thorough knowledge of the many aspects of commercial art. The tuition in these schools ranges anywhere from \$200 to \$1,000 a year.



ART CLASS

An excellent magazine for anyone interested in this field is the *Professional Art Quarterly*, published four times a year at 320 West Doty Street, Madison, Wisconsin. A yearly subscription is \$1, or 25 cents an issue.

The Voice of Faith

We who live in an age of war and catastrophe need to maintain our faith that in spite of present tragedy we are moving toward something better. It should not, of course, be a blind faith, and we should prepare ourselves to take part in the movement and to assist it. But faith that progress is still possible and that a brighter tomorrow may come out of the darkness of today is necessary if we are to maintain our sanity and strength for the performance of duty. Such faith is expressed in the following poem, by Richard Hovey (1864-1900), reprinted from "The Standard Book of British and American Verse."

To what new fates, my country, far
And unforeseen of foe or friend,
Beneath what unexpected star
Compelled to what unchosen end,
Across the sea that knows no beach,
The Admiral of Nations guides
Thy blind obedient keels to reach
The harbor where thy future rides!
The guns that spoke at Lexington
Knew not that God was planning then
The trumpet word of Jefferson
To bugle forth the rights of men.
To them that wept and cursed Bull Run,
What was it but despair and shame?
Who saw behind the cloud the sun?
Who knew that God was in the flame?
Had not defeat upon defeat,
Disaster on disaster come,
The slave's emancipated feet
Had never marched behind the drum.
There is a Hand that bends our deeds
To mightier issues than we planned:
Each son that triumphs, each that bleeds,
My country, serves Its dark command.

I do not know beneath what sky
Nor on what seas shall be thy fate:
I only know it shall be high,
I only know it shall be great.

- Do You Keep Up With the News? -

(For answers to the following questions, turn to page 8, column 4)

1. The Dodecanese Islands, now under the rule of _____, were taken from _____ in 1912 at the beginning of the war between those nations.

2. Who is commander of the German air force?

3. The British minister of economic warfare, Ronald C. Cross, told what nation that she must behave like a neutral?

4. The Germans have control of the Norwegian airdrome at (a) Hamar; (b) Elverum; (c) Narvik; (d) Stavanger.

5. Name the governor of Minnesota who has been chosen to make the keynote speech at the Republican National Convention in Philadelphia, June 24, 1940.

6. Leland Stowe and several other foreign correspondents flashed to the world news of what is perhaps the greatest conspiracy of the present war—how Norwegian officers permitted the Germans to enter the city of _____ and gain key defense points.

7. Santiago is the capital of what South American country?

8. Who is chairman of the Federal Reserve Board?

9. The United States has about \$18,000,000,000 in gold, more than (a) 80%; (b) 30%; (c) 60%; (d) 50% of all the known gold reserves in the world.

10. Where is the International Settlement

located? What country failed to get five men elected to the Municipal Council?

11. Secretary of State Cordell Hull recently announced that any intervention in the affairs of the _____ would be prejudicial to peace in the Pacific. This note was a reply to a speech by Hachiro Arita, foreign minister of _____.



12. The chief justice of the United States Supreme Court recently celebrated his 78th birthday. Who is he?

13. Norway declared its independence from Sweden in (a) 1900; (b) 1850; (c) 1905; (d) 1805. King Haakon of Norway is brother of King _____ of _____.

14. True or false? Loans which the United States made to the Scandinavian countries will be safeguarded to keep Germany from getting hold of them.

15. Name the little Balkan country which voted to overthrow the monarchy in 1925

to establish a republic, and then 10 years later restored the throne. The premier of this nation is Fascist-inclined (a) John Nygaarsvold; (b) General John Metaxas; (c) Vidkun Quisling; (d) Nicholas Horthy.

16. What former British ambassador to Germany has written a book titled, "Failure of a Mission"?

17. The long narrow plain in northeastern Rumania, between the Pruth River and the Soviet border, which was once a part of Russia is _____.

18. On what island, until recently under Danish rule, are found the largest deposits of cyrolite in the world?

19. Name the African republic on the southwest coast which was established in 1822 by Negro freedmen from the United States and has a constitution modeled after ours.

20. General Ismet Inonu is president of what country in the Near East?

PRONUNCIATIONS: Angola (ang-goe'-lah), Hachiro Arita (hah-chee'-roe ah-ree'-tah), Azores (ah-zorz'), Berchtesgaden (bairk'-tes-gah-den), Goebbels (guh'bels), Goering (guh'ring), Gran Chaco (grahn'-chah'-koe), Mozambique (moe-zam-beek'), Namsoos (nahm'-soes), Narvik (nahr'-veek'), Reichswehr (riks'-vair-i as in ice), Ribbentrop (rib'-ben-trope), Stavanger (stah'-vang-er), Trondheim (tron'-ham—a as in care).

Banking System Helps Industry

(Concluded from page 6)

and other banks are calling for cash. They want to borrow it. The Federal Reserve Bank asks the Federal Reserve Board to have paper money printed so that it may be lent to the bank.

At this point a member of the Federal Reserve Board may say: "We had better go a little slowly about this. There is too much borrowing going on. Too many firms, like the Brown Furniture Company, are buying on time. Some of them are borrowing money and engaging in ventures that may not turn out well. Speculation is in the air. If this thing goes on there is likely to be a crash later. We had better put the brakes on."

Higher Interest Rates

The other members of the board agree. But how are they to put on the brakes? Very simply. They have the paper money printed, all right, but they say to the Federal Reserve Bank: "When you lend this money to the First National (and other banks, of course) you must charge a higher rate of interest. Then, in order to make a profit, the First National must charge a higher rate of interest when it lends money to Smith (that is, takes over his note due in 60 days, giving him cash for it). Smith will then have to charge a higher rate when he lends money to Brown. Everybody lending money will have to charge higher interest. This will discourage borrowing. People who would borrow money at four per cent, for example, and start some venture, will not pay six per cent. This will put brakes on the unhealthy 'boom' which seems to be under way."

So the Federal Reserve Board orders that higher interest must be charged when the Federal Reserve Banks pass out the new bills in the form of loans. In other words, the Federal Reserve Board "raises the discount rate." That is what it does when there seems to be too much borrowing and when a "boom" threatens.

But what does the Federal Reserve Board do when there is too little borrowing—when business is very dull, and when businessmen are holding back and not starting many new ventures and not spending much? Just the reverse. It orders the Federal Reserve Banks to lend money to the First National and other banks at a lower rate of interest. This enables lenders everywhere to lower their rates. It enables those who wish to borrow to get money for less interest. Ordinarily this tends to start business moving when it is inactive.

Why, then, is that plan not put into operation now? Business is stagnant. Few business ventures are being undertaken. People who have money are holding it

rather than putting it to use. Few companies are enlarging their plants. Why does the Federal Reserve Board not order a lowering of interest rates on money borrowed by the banks so that money everywhere may be borrowed more cheaply? Would that not induce people to borrow and engage in business activities?

No, that plan does not work now. Few people want to borrow money regardless of the rate of interest they would have to pay, so lower interest rates would not induce them to borrow and spend for new business enterprises, for an enlargement of their businesses, or for other purposes. They would not borrow if they could get the use of money for nothing, because they are afraid, general conditions being what they are, that if they invested more money they might lose it. It is not high interest rates that are holding business back.

As a matter of fact, interest rates are now very low. It is not lack of money in the banks. The banks are so full of money they do not know what to do with it. They cannot lend it, for borrowers with sound security do not come to them. The Federal Reserve Board could lower interest charges (could lower the discount rate) to practically nothing, and the stores of cash on hand would probably remain inactive. So would business.

What the country needs at present is not more money but more business activity. If business becomes more active and there are more transactions calling for the use of money, a greater quantity may be needed in order that business operations may be carried on smoothly. But when that time comes, there will be an increase in the amount of money in use through the means which have been described.

The New Deal Position

How, then, are we to get business started upward again? We run into controversy at this point. A sharp issue has arisen between the New Dealers and their conservative opponents, which include many Democrats and nearly all Republicans. The New Deal answer is about as follows:

"Ordinarily private industry borrows money and puts it to work, increasing output, hiring workers, and so on. But businessmen are not increasing production now because they know that the public has not enough purchasing power to buy more goods than it is buying. So money lies unused in the banks. It is not being put to work.

"Under the circumstances, the government should step in and do what private business ordinarily does. It should borrow money from the banks by selling them bonds. It should use this money to build roads, schoolhouses, and the hundred other things being built by the WPA. This puts men to work. They get wages, which gives them power to buy. The more they buy, the greater will be the demand for goods. Private industry will have to ex-



MONEY HELPS TO TURN THE WHEELS OF INDUSTRY

GALLOWAY

pand in order to supply the goods which are being bought. When private companies expand and produce more, they will have to employ more workers; pay more wages. This will add to purchasing power. Their employees will buy more goods. Business will start upward, and after a while it will become so active that the government can step out and let business run on its own steam."

Opposition to Program

The anti-New Dealers take issue with this viewpoint. They argue as follows: "The more the government borrows and goes into debt, the more uneasy investors and businessmen will be. There is already widespread fear that after a while the government may become bankrupt. Businessmen are also afraid that, as the government engages in various activities, such as building and construction work of all kinds, it will compete with private industry. In order to carry on this spending program, moreover, the government must tax the nation heavily, and this in itself discourages and holds back private business.

"If the government should cut down its borrowing and spending; if it should quit competing with private industry; should quit regulating business unfairly; should quit encouraging labor to make impossible demands on employers—if the government should, in short, throw over many of the New Deal policies—businessmen would have more confidence in the future. They would begin to borrow from the banks. They would launch new ventures. In doing this they would employ more men, pay out more in wages. This would give the public more purchasing power with which to buy an increasing quantity of goods, and soon the country would be on the upward path."

Such, in brief outline, is the issue which separates President Roosevelt and his followers from the Republicans and anti-New Deal Democrats. There is agreement in the two big parties, however, that the next step is to get idle money into use rather than to print and distribute more money. But they disagree over methods.

There are various groups, of course, who still think that wealth and prosperity can be created by putting the printing presses to work. Let the government print money, they say, and give it to those in need. These people will spend the money, satisfying their wants and stimulating business. And, as a matter of fact, such a

plan, if carried out cautiously and moderately, might have a stimulating effect.

But there are serious dangers involved in printing large additional sums of money and putting it into circulation all at once. The first effect of such a step would be to cause a price rise, for if additional sums of money are placed in the hands of people, they will buy things with it. This will add to the demand for goods, and if you suddenly increase the demand for goods, the price will rise. Then when prices rise and people find that their dollars are buying less, there will be a demand for the government to print more dollars.

Importance of Psychology

Psychology also has to be taken into account. If people see the government printing money which has nothing back of it, they are likely to become excited. They will fear that prices will rise sharply and will undertake to spend all their money for goods before prices get out of hand. The faster they buy, the faster prices will rise, and after a while, there will be runaway inflation. The value of money will fall until a dollar is almost worthless.

Such things have happened again and again. If history teaches anything, it is that wealth is not created merely by the printing of money. Money is not wealth. Wealth is created only when goods which people need are produced. The nation can become wealthier and more prosperous only if more goods are produced, and if the people have regular employment at incomes which will permit them to buy an increasing output of goods.

The big job of the American people today is to put industry on a sound and expanding basis, rather than to put the printing presses to work. But how can we give the upward push to business? That is the question of the hour. It will be one of the most hotly debated issues of the coming presidential campaign.

Answer Keys

Do You Keep Up With the News?

1. Italy. Turkey; 2. Hermann Goering; 3. Italy; 4. (d); 5. Harold E. Stassen; 6. Oslo; 7. Chile; 8. Marriner S. Eccles; 9. (c); 10. Shanghai. Japan; 11. Dutch East Indies. Japan; 12. Charles Evans Hughes; 13. (c). Christian of Denmark; 14. true; 15. Greece. (b); 16. Sir Neville Henderson; 17. Bessarabia; 18. Greenland; 19. Liberia; 20. Turkey.

Smiles

"Your daughter has perhaps told you what she means to me. I told her yesterday that she is the joy of my days, the light of my life."

"Well, she did say something about it; but not quite like that. She just said that she had clicked."

—CRONICA



"MAY I HAVE A LITTLE PIECE OF BUTTER? IT'S SO HARD TO CATCH A WAITER'S EYE."

KAUNAS IN AMERICAN MAGAZINE

"With the coming of spring," says a park official, "there is more litter to be gathered." Well, there's one business that is picking up.

—HUMORIST

Garage Attendant: "What's the trouble, lady?"

Motorist: "I must have a short circuit in the ignition. Could you lengthen it while I wait?"

—CAPPER'S WEEKLY

Customer: "And you have the nerve to ask \$5 a bottle for this nerve tonic?"

Druggist: "Yes, sir, it shows what the stuff will do. I take it regularly!"

—TOPEKA CAPITAL

Bridge Fan: "I didn't play no trumps all evening."

Uninitiated Friend: "What grammar!"

—SELECTED

"Had you heard that Jane is engaged to an x-ray specialist?"

"Well, she's lucky. Nobody else could see anything in her."

—GOBBLER

Doctor: "I must tell you frankly, I don't like the looks of your husband."

Patient's Wife: "Well, I admit he never was a handsome man, doctor, but he's so good to the children."

—CAPPER'S WEEKLY